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Executive Director

**ARIZONA CORPORATION COMMISSION**

February 27, 2008

Members of the WIFA Board  
Attention: Judy Navarrete, Executive Director  
1110 W. Washington, Suite 290  
Phoenix, Arizona 85007

**RE: USE OF SMALL WATER SYSTEMS FUNDS FOR VALLE VERDE WATER COMPANY  
REPAIRS AND REHABILITATION**

Dear Members of the WIFA Board:

**Request**

The Arizona Corporation Commission ("ACC") requests that the Water Infrastructure Finance Authority ("WIFA") of Arizona approve grant money to Southwestern Utility Management, Inc. ("SUM") of up to \$76,100 from monies in the Small Water Systems Fund ("SWSF"). This payment would be to SUM, as the interim manager for Valle Verde Water Company ("VWVC"), for repairs and rehabilitation of the Valle Verde system in order to avoid interruptions in water service to Valle Verde's customers in Santa Cruz County, Arizona.

**Background**

1. SUM has been operating the VWVC system as interim manager, pursuant to an agreement with the ACC, since September, 2007.
2. VWVC is currently owned by the Estate of William F. Randall, who had operated the system for many years prior to his death. Upon Mr. Randall's death the system fell into financial and operational disarray and became non-compliant with several Arizona Department of Environmental Quality ("ADEQ") Rules. ADEQ issued two Notices of Violation to VWVC for exceeding Maximum Contaminant Levels ("MCL") on three of its four active wells, failing to have a certified operator, failing to obtain an Approval to Construct for an interconnection with the City of Nogales, as well as various monitoring failures. ADEQ has determined that the VWVC system is not delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
3. The Commission issued Decision No. 69882, an Order to Show Cause ("OSC") ordering VWVC to answer allegations concerning the violation of ACC Rules and directing ACC Staff to appoint an interim manager to operate the system. In its complaint, Staff alleged, among other things, that VWVC failed to supply a satisfactory and continuous level of service and that the equipment and facilities of VWVC were inadequate and insufficient.
4. VWVC operates two water systems which are not interconnected. VWVC Well Nos. 1, 2 and 4 which serve one system are contaminated with tetrachloroethylene ("TCE") and are consequently out of compliance with ADEQ Rules. Well Nos. 1 and 2 are off-line, and Well No. 4 is on-line for non-potable purposes only. To provide water to those customers formally served by Well Nos. 1 and 2,

VVWC has established an interconnection with the City of Nogales ("City") and purchases water from the City. VVWC reported that it owes the City of Nogales approximately \$36,000 for past water purchases. VVWC provides bottled water for drinking purposes to customers served by Well No. 4. VVWC Well Nos. 5 and 6 which serve the other system are affected by arsenic. Well No. 6 is currently off-line due to its high arsenic concentration. Well No. 5, which is approaching but is currently below the arsenic MCL, has sufficient capacity and storage to serve existing connections on the system.

5. SUM is facing the need to maintain an aging VVWC system that is experiencing a significant number of breakdowns and requires substantial upgrades. SUM requires immediate financial assistance for repairs and rehabilitation of the VVWC system in order to avoid interruptions in water service to customers. SUM provided invoices for its repair to the VVWC system. The invoices for system repair totaled \$38,300 (rounded). SUM has been billed \$37,800 (rounded) for engineering services provided by Engineering and Environmental Consultants, Inc. ("EEC"). EEC studied and provided recommendations on the various treatment alternatives available to address VVWC MCL violations. EEC also provided other services to SUM as interim manager of the VVWC system which helped SUM avoid service interruptions to VVWC customers. Currently a portion of the VVWC customers are being served water provided by the City via an interconnection with the City. This interconnection can be terminated at any time by the City. In light of this, the engineering services provided by EEC help rectify the possibility of a lengthy and prolonged interruption in service to customers of VVWC.
6. We believe that monies available in the SWSF are an appropriate source of funds to cover these expenditures. Without proper repairs to the VVWC system, the customers would have undoubtedly experienced more frequent and prolonged interruptions in their water service. Approval of this grant will allow for the recovery of funds expended by SUM to return the system to operation. The engineering services provided by EEC helped to reestablish service to customers and has established a recommended treatment method which is expected to enable the VVWC system to ultimately achieve compliance with its MCL violations.

Sincerely,



Mike Gleason, Chairman



William A. Mundell, Commissioner



Kristin K. Mayes, Commissioner



Jeff Hatch-Miller, Commissioner



Gary Pierce, Commissioner

Attachment

cc: Dean Miller  
Ernest Johnson  
Steve Olea  
Chris Kempley